

City of Detroit



CITY COUNCIL

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TO: The Honorable City Council

FROM: David Whitaker 
Julianne Pastula 

DATE: February 22, 2006

RE: **PETITION OF RIVER OF TRADE CORRIDOR COALITION (#0087)
REQUESTING HEARING BEFORE COUNCIL AND FUNDING**

At the Honorable City Council's request, the Research & Analysis Division (RAD) submits the following report in regard to the River of Trade Corridor Coalition. As background RAD has provided a brief history of free trade agreements, identified trade corridors, proposed trade corridor expansion, and the River of Trade Coalition.

I. Expansion of Free Trade Agreements

The North American Free Trade Agreement (NAFTA) went into effect on January 1, 1994. It is a trilateral free trade agreement¹ between Canada, Mexico and the United States. NAFTA is an expansion of the 1989 Canada-U.S. Free Trade Agreement and has been controversial since its proposal. It provides for regional economic integration between a less-developed country (Mexico) and two industrial powers (Canada and the U.S.) in the areas of financial services, government procurement, foreign investment and intellectual property rights. NAFTA provided for the elimination of most customs duties and tariffs on trade following a predetermined period ranging from 5 to 10 years, as the case may be. Corporations tended to support NAFTA believing that lower tariffs would increase profits. Labor unions feared the passage of the trade agreement would mean U.S. jobs would move out of the country due to lower labor costs elsewhere.

NAFTA created the largest free trade zone in the world, encompassing 21 million square kilometers of land, over 400 million people and produces more than \$11 billion USD worth of goods and services annually. Since NAFTA was signed, all three nations have experienced economic growth, with an increase in the standard of living in Canada and especially Mexico. However, it has been difficult to ascertain NAFTA's macroeconomic effects due to the large number of economic variables in the global economy. Statistics indicate rather than creating an increase in trade, NAFTA has caused trade diversion, where the members import more from each

¹ Under international law NAFTA is a treaty; under U.S. law it is a congressional-executive agreement.

other at the expense of other countries. NAFTA has also increased the concentration of wealth in both Mexico and the United States.

Since NAFTA took effect, the central question has been: What is the effect of cheap Mexican labor on U.S. jobs? Between 1993 and 2002, over 870,000 production jobs in the United States were lost. The manufacturing centers in the Northeast and Midwest suffered the most. NAFTA has contributed to rising income inequality, suppressed real wages for production workers, weakened collective bargaining powers and the ability of workers to unionize and reduced fringe benefits in the United States. Mexican laborers have also suffered under NAFTA. Even though employment rose, the amount of wages fell significantly and there was a sharp decline in the number of workers holding regular jobs. Instead, many workers are employed informally or on a temporary basis, based on market fluctuations. New economic growth in Mexico has taken the form of more jobs rather than higher wages². Job displacement in the U.S. and job growth in Mexico could be significantly higher as tariffs continue to fall and trade grows.

Efforts to expand NAFTA began immediately after it went into effect in 1994. The Free Trade Area of the Americas (FTAA) proposal would have expanded the free trade zone to encompass every country in Central America, South America and the Caribbean, with the exception of Cuba. The deadline for completion and signing of the FTAA was January 1, 2005, with it going into effect before December 2005. The FTAA was not signed by the deadline; however, after ten years of negotiation and planning, considering the time and effort that went into the proposal, it is unlikely that the discussions will cease and the FTAA will be pursued again in the future.

Even with the failure of the FTAA, it is important to note that free trade zone in the Western Hemisphere has significantly expanded with the enactment of the Central American Free Trade Agreement (CAFTA), which was signed by participating countries trade ministers in May of 2005 and approved by Congress in July 2005³. It eliminates tariffs and other trade barriers between Nicaragua, Costa Rica, Honduras, El Salvador, Guatemala, the Dominican Republic, and the United States. At the present time, CAFTA accounts for approximately 1.4% of U.S. global trade.

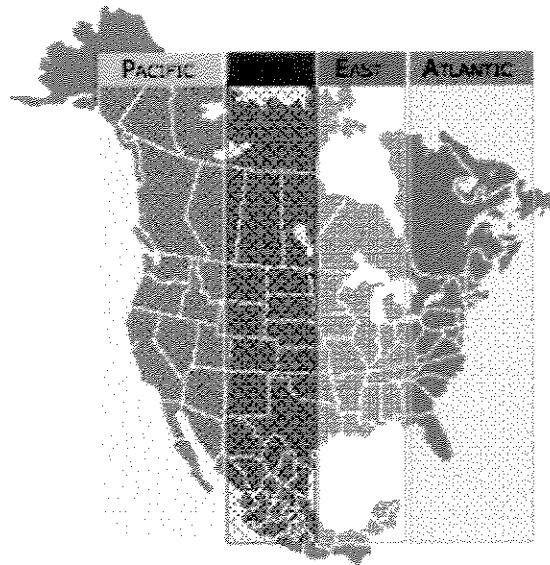
II. Identified Trade Corridors

About 90% of U.S. trade with Canada and Mexico moves by ground transportation. In November 2005, trade using surface transportation was 12% higher than November 2004, reaching \$62.9 billion USD. Michigan led all states in surface trade with Canada in November 2005 with \$6.9 billion USD. Texas led in surface trade with Mexico at \$7.1 billion USD in November 2005.

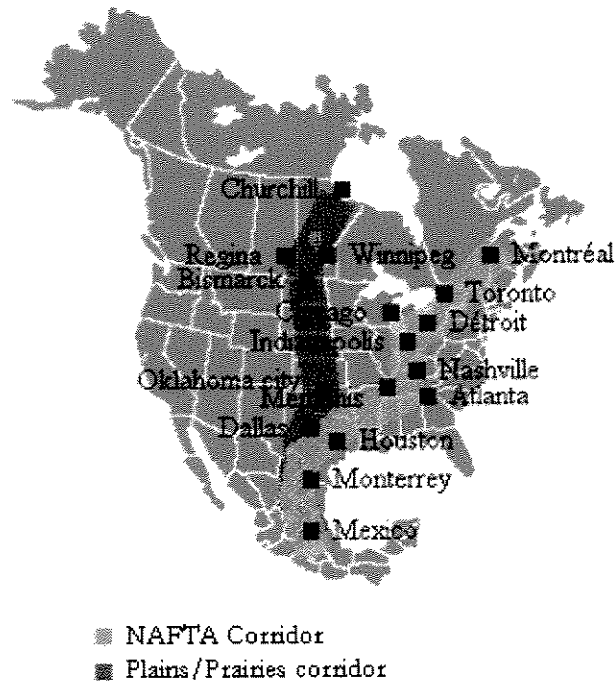
² Average starting wage at an assembly plant in Nuevo Laredo is 69 cents per hour.

³ Congress granted the White House fast-track trade negotiating authority in 2002. This permits the Bush Administration to negotiate trade deals that Congress can either approve or reject without modification. The trade-promotion authority expires in 2007.

The implementation of NAFTA has facilitated the creation of coalitions whose members include businesses, government agencies, rural and metropolitan communities to promote specific transport channels and develop or consolidate infrastructure. The corridors are multi-modal and include roads, highways, airports, pipelines, railways, canals, and ports. There are four identifiable trade corridors in North America:



Michigan is part of the central eastern region. It has two identifiable corridors: one urban that passes through the largest and most industrialized cities and one rural that passes through the Great Plains. The corridors are shown below:



Coalitions active in the central eastern region include the Central-North American Trade Association, The Northern Great Plains Initiative, Ports-to-Plains Trade Corridor, North American International Trade Corridor Partnership and the Mid-Continent Trade Corridor.

III. Trade Corridor Infrastructure Expansion

The proposed NAFTA Corridors (Corridors), which are in the promotional and pre-construction stage, will dwarf the existing NAFTA highways and railways by development of vast transportation corridors in the U.S. and Mexico. The Corridor system will be the largest engineering project in U.S. history. To appreciate the scope of the project, a discussion of the proposed size of the Corridors is necessary. The NAFTA Corridors will be up to 1,200 feet wide with three components:

- Passenger and Truck Lanes – 10 lanes total
Three lanes in each direction for passenger vehicles between two lanes in each direction for trucks
- Rail Lines – 6 lines total
In each direction there will be one of each: high-speed passenger rail, commuter rail and freight.
- Utility Zone – 200 foot-wide utility zone.

Because of the size and scope of the proposal, total land consumption in the United States to construct the Corridors is estimated to exceed 1 million acres. The Corridors will be routed through rural areas, consuming a total area of agricultural land and open spaces almost the size of the land area of Vermont. Public return on the investment will be minimal because the majority of the Corridors will be toll roads, with most of the profits flowing to private entities pursuant to exclusive development agreements with state governments.

The cost of the proposed NAFTA Corridors will be high for both the United States and Mexico. It will foster further dislocation and debasement of U.S. labor while simultaneously intensifying labor exploitation in Mexico. It will foster dependency on oil, drastically reduce open spaces and increase environmental concerns not adequately addressed in the NAFTA or CAFTA.

The Corridor proposal that encompass Michigan, is the proposed I-69 Corridor. It will originate in Laredo, Texas, head northeast, connecting Houston, Texarkana, Memphis, Evansville, Indianapolis, Lansing and Port Huron, Michigan at the international border crossing. This corridor is approximately 2,100 miles long.

In 2003, the Lazaro Cardenas-Kansas City Transportation Corridor began operating. This Corridor is not a newly constructed Corridor, but exists by a merger of three existing transportation providers that join the NAFTA countries. For Pacific shipping vessels, it is a 2,000-mile longer maritime journey to Mexico as opposed to shipping to California⁴. The land distances via train are approximately the same once the shipments reach port. However, the

⁴ Los Angeles and Long Beach, California are ranked first and second in international freight gateways (water) for trade volume in the United States.

NAFTA railway offers its customers a 15% savings on the cost of shipping import containers through Mexico rather than California; even though it represents a 30% increase in overall mileage of the journey. Competition with incentives such as these is difficult when trying to coordinate international transportation of freight.

IV. River of Trade Corridor Coalition

The Petitioner, River of Trade Corridor Coalition (ROTCC), provided detailed background information with its cover letter addressed to the Detroit City Clerk, dated January 26, 2006. Additional information for this report was obtained from the Petitioner's website.

The ROTCC was formed in 2004 to promote the "historic NAFTA River of Trade Corridor" which is essentially the central eastern corridor shown in the diagrams above. The ROTCC membership is very diverse, with businesses, elected officials, cities and counties. The majority of its members are located in Texas.

The ROTCC has been active politically and has two Caucuses, the Congressional Caucus and the Legislative Caucus. Its mission is to raise awareness and garner support for preservation of the central eastern corridor. The ROTCC petition to this Honorable Body requested a forum to discuss trade issues and request financial support.

V. Conclusion

Educating the public and raising public awareness of free trade agreements, the impact on our community and global trade issues serves an important purpose as well as numerous public policy goals. The granting or denial of Petitioner's request to speak is at the discretion of this Honorable Body. RAD recommends more information be provided from the Petitioner prior to a final determination or discussion. For example, what other mid-western cities have lodged support? Does the ROTCC support the proposed NAFTA Corridors or does it want to utilize the existing infrastructure? This Honorable Body may also consider holding a more comprehensive discussion by inviting other trade corridor coalitions that are active in the Midwest and would be knowledgeable on the issues raised by the Petitioner.